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# County Records Management

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THE SUBJECT for discussion today in the short time allotted is *County Records Management*. This is a broad subject, as we shall see in just a moment, and we obviously can not dig deeply into the details of county-records maintenance at this time. Further, it is apparent that the details of record-keeping applying to any one county represented here today may not at all fit the requirements of another county also represented. For example, I feel sure that representatives from one or more counties would be greatly interested in a discussion of the preparation and maintenance of records by the use of electronic data-processing machines and I feel equally sure that there are those who would like to have some new thoughts developed concerning the preparation and maintenance of hand-posted records. At the same time I want to avoid talking in generalities and shall therefore attempt to develop some of the essentials of good records management, making selected applications of these essentials to county-records management. If I am successful in passing these essentials on to you then you will be in a position to consider all your records in the light of these essentials.

## PRODUCTION OF RECORDS

Article 1651 of Vernon's Civil Statutes of the State of Texas speaks of the general duties of the county auditor as follows:

The auditor shall have oversight of all the books and records of all the officers of the county, district, or State, who may be authorized or required by law to receive or collect any money, funds, fees or other property for the use of, or belonging to the county; and he shall see to the strict enforcement of the law governing county finances.

The foregoing statement would seem to cover just about all county records.

What do we mean when we speak of records? Records, I would say, are the written evidence of transactions. Records start with

the origin of a transaction. The records for the purchase of an item of material may originate with a department head presenting a request for purchase order to the purchasing agent. Following this transaction to its conclusion we might find the following records affected: (1) purchase order, (2) encumbrance run, or journal, (3) vendor's invoice, (4) receiving report, (5) voucher register, (6) check, (7) check register, and (8) general ledger. In addition there are other related records but not directly in the line of events, such as bank statements and reconciliations, posting journals, voucher jackets, inventory records, stock requisitions, and last but not least, financial statements and reports. We would have a similar number of records affected in connection with the rendering of services and the related billing and collecting therefor. Now that we have considered the number of records concerned in one simple transaction, consider the number of funds and departments that are generating a never-ending stream of transactions and records. The number is beyond comprehension.

The point is this: On the one hand there is county-records management and on the other hand there is county-records management with purpose and with plan, or to say it another way, county records *in spite of* management vs. county records *because of* management. In view of the tremendous volume of records concerned, it is apparent that the only way to achieve, or retain, the desired position of county-records management with purpose and with plan is to adopt a vigorous program based on sound principles and fix the responsibility for carrying it out in a qualified employee, or to assume the responsibility yourself if necessary. It may be that a budget appropriation will be necessary to do the job properly, but this should prove to be money well spent. Such a program should cover the preparation, verification, retention, and disposition of records.

#### ESSENTIALS TO PROPER PREPARATION

First, let's consider some of the essentials to the proper preparation of records. The first essential is to consider the broad purposes of records. Records present a history of what has occurred; they tell the story of the present; they present a basis for looking into the future; they are a source of prosecution and condemnation of the dishonest, and a source of confirmation and pride to the honest. Of course the specific purpose for each record must be considered

also. That is, question it from the standpoint of: What does it accomplish? Is it necessary? Is it a duplication of other records? Will the benefits to be derived from it justify the cost of preparation? If you will consider your records carefully from these standpoints, I believe you will be surprised at the number of records, especially reports, that can be discontinued. This should leave you time and money for more important records.

The second essential is based on the premise that if a record is worth preparing in the first place, then it is worth preparing right. It is necessary therefore to set up the proper controls to ensure the proper preparation of records. These controls relate not only to the records themselves but also to the transactions from which the records originate and to the assets and liabilities generated by these transactions. These controls are referred to as internal controls. The following paragraph sets forth the definition of internal control taken from the Special Report on Internal Control issued in 1949 by the American Institute of Certified Public Accountants' Committee on Auditing Procedure:

Internal control comprises the plan of organization and all of the coördinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. This definition possibly is broader than the meaning sometimes attributed to the term. It recognizes that a *system* of internal control extends beyond those matters which relate directly to the functions of the accounting and financial departments. Such a system might include budgetary control, standard costs, periodic operating reports, statistical analyses and the dissemination thereof, a training program designed to aid personnel in meeting their responsibilities, and an internal audit staff to provide additional assurance to management as to the adequacy of its outlined procedures and the extent to which they are being effectively carried out. It properly comprehends activities in other fields as, for example, time and motion studies which are of an engineering nature, and use of quality controls through a system of inspection which fundamentally is a production function.

From this definition the part internal control plays in county-records management should be obvious. Unfortunately, we do not have enough time to attempt to cover internal control; that would

require one or more sessions but should be very beneficial. We will consider a few *essentials* to good internal control however.

#### ESSENTIALS TO INTERNAL CONTROL

One essential to good internal control is the establishment of accounting control over a transaction at the point of origin. Sometimes this is quite simple and sometimes it is next to impossible.

##### *Disbursement-Type Transactions*

Generally, disbursement-type transactions are easier to control from the point of origin than are receipt-type transactions. For example, it is relatively easy to control purchases from the point of origin by requiring a requisition for a purchase order, properly prepared by an authorized person, to initiate this type of transaction. On the other hand it is extremely difficult to establish control over the sale of lists of eligible voters since almost anyone could run off additional lists. From this point, that is, the point of origin, internal control begins to overlap. For example, the control over the amount of cash received with respect to a particular transaction may have been established prior to the receipt of such cash by the recording of an account receivable at the time the transaction originated. That is not to say, however, that control over the physical receipt of funds is not necessary simply because we have previously established an account receivable. Internal control is a never-ending proposition.

##### *Receipt-Type Transactions*

Generally speaking, and within reason of course, a small number of employees engaged in cash-receiving is desired and a larger number of employees engaged in cash-disbursing is preferred. Now, along with the related records, let's discuss some other important points to be considered in connection with the receiving of cash and the accountability therefor. It is desirable that the person receiving cash should not be the one responsible for the maintaining of records establishing the accountability for cash. In other words if one employee can control the receiving transactions to the point of determining how much cash should be received and another employee receives and deposits the cash, then by comparing the records of the two employees, good internal control has been accomplished. For the purpose of illustration let's simplify the County Clerk's Office and take

a look at how this might work and how it might be applied to one department.

The first step is to designate a head cashier who is responsible for the receipt, balancing, and depositing of cash; this fixes the responsibility. If you have assistant cashiers they should be assigned separate cash drawers. To control cash received over the counter, we should have cash registers or prenumbered receipt forms. If cash registers are used the register reading should be made under control and if receipt forms are used (the type locked in a counter machine is preferable) there should be an independent accounting for the sequence of the numbers. This checking should be done by a person who does not have access to cash and he should determine that all items and totals in the register or on the receipt copies are entered in the cash-receipts record and deposited in the bank. Mail receipts likewise should be controlled to prevent abstraction before entry in the cash-receipt record. The employee opening the mail should ring the receipts in the cash register or prepare a list of the receipts. If a list is prepared, a person who does not have access to cash should check the list to determine that all receipts have been entered in the cash-receipts record and deposited in the bank. We have now outlined some of the more important controls over the receiving and recording of cash, and even though the subject may seem elementary to some who may already have such controls, a reappraisal of your controls might prove beneficial. At this point I am going to develop an idea that I believe will be new to most of you.

#### *A New Suggestion*

The Civil Courts Department of your County Clerk's Office maintains a fee-docket sheet for each civil case filed. This sheet contains space for recording the cash deposit received, charges for services, and cash collections, or application of the cash deposit. You probably know approximately how much your liability for cash deposits is, since your liability should be equal to the cash you are holding in a special bank account. However, do you know for sure that the cash deposits included in all of your fee-docket books will equal your cash in the bank? There is one further question I doubt anyone can answer. That is, do you know the amount of outstanding accounts receivable in your Civil Courts Department? By accounts receivable I am referring to the excess of charges against civil cases over cash collected and deposits applied. Actually, the only way you could

know for sure would be to have maintained a control since the beginning of operations or to have subsequently constructed such a record. However, for all practical purposes we could establish a beginning point of 1955, for example. Then, for the sake of this discussion, our controls might work something like this: We would establish controls for the amount of deposits and uncollected charges reflected in each fee-docket book and in total; then as charges are made against the various cases for services rendered and these charges are posted to the individual fee-docket sheets, the total posted each day is posted to the various book controls and to the over-all control; similarly, cash collected and deposits applied to the individual fee-docket sheets would be posted in total to the controls.

We now have controls established that should be in agreement with the details of the various fee-docket books. Periodically we can now balance the details in various books with the book control and balance the book controls with the over-all control. However, at this point we have not accomplished a thing, unless it is more work, if the person who makes the charges for services rendered and maintains the controls is also responsible for collecting cash. Therefore, someone else should collect the cash, and why shouldn't it be the head cashier that we discussed a while ago? He could make a daily report of collections applicable to each department and sort the receipt copies by departments. The Civil Courts Department could post from these receipt copies. The Civil Courts Department would also prepare and send out statements on uncollected charges. The advantages of such a system should be obvious and in my opinion it is only through systems such as this that records and records management have any true significance.

As indicated earlier, I believe this idea is new to most of you but certainly I do not expect or advise you to rush back to your county to set up this system. However, if you will study and explore the principles described here and apply them to one area at a time as opportunity presents itself, you will be well on your way to better county-records management.

#### METHODS OF CONTROL

Now let's take a brief look at some of the controls that should be maintained over cash disbursements and related records. The first control over disbursements with respect to your county should be your budget. This budget is, of course, approved by your Commis-

sioners' Court. When a request for an expenditure is received, it should be checked to see that the item has been provided in the budget and that funds are available; if so, an encumbrance is made and an order or other commitment is placed. A budget is not serving its purpose unless it so controls expenditures. A receiving report should be prepared for all materials and supplies received; for services, the invoices should be approved by the person receiving the service. Purchase orders, receiving reports, and invoices should then be matched and thoroughly checked and approved for payment. These approved disbursement vouchers should accompany the checks when presented to the check-signers for signature and the check-signers should cancel these supporting documents to prevent their re-use. Check-signers should not have any authority with respect to the approval of items for payment, nor should they have any duties with respect to recording disbursements or reconciling bank accounts. These are just a few points to be considered and are by no means intended to be exhaustive.

#### INTERNAL AUDIT STAFF

Another element of good control over records management is an internal audit staff operating independently of the records-preparation function. The internal auditor should report directly to administrative management in order to be effective.

#### LEGAL REQUIREMENTS

We have discussed some of the more important aspects of county-records management from the standpoint of sound accounting practices. However, where sound accounting practices and legal requirements are in conflict, the legal requirements must necessarily prevail. It may be necessary to request legal opinions frequently and, I suspect, more often than you do. Also there are some legal requirements that are, it seems to me, unduly restrictive and some that could stand some clarification. For example, Article 1666 and 1666a of Vernon's Civil Statutes of the State of Texas provide for the preparation of the budget. These articles include such terms as ... *funds and revenue estimated by the Auditor to be received* ..., ... *proposed expenditures* ..., ... *aggregate receipts and aggregate disbursements* ..., and ... *consolidated balance sheet* ... I have heard it said that these articles have generally been interpreted to mean that the budget is to be prepared on the cash basis and I feel sure that most, if not all, of you prepare



your budgets on the cash basis. It would then follow that your accounting records would be maintained and your reports prepared on the cash basis or modified cash basis. I am not so sure that interpreting these articles to mean that the cash basis is required is the correct interpretation. Article 1666a refers to a consolidated balance sheet and I have yet to see a consolidated balance sheet of a governmental unit. It would seem therefore that a legal opinion or amendment of these articles, or both, might be in order.

In any event, I strongly prefer the accrual basis over the cash basis of accounting, as does the National Committee on Governmental Accounting of the Municipal Finance Officers Association of the United States and Canada. This is the only basis permitting a proper matching of revenues and expenses. While we are on this subject I should like to point out that a strictly cash basis of accounting does not provide for recording accounts receivable except possibly for an account receivable arising in conjunction with a cash disbursement. Therefore, I would suggest that if you are now using the cash basis you should consider using what is frequently referred to as the modified cash basis.

As far as I know there is no formal definition of the modified cash basis, but under this basis, accounts receivable would be recorded in the accounts at the time they became an asset of the county with a contra credit to an accounts-receivable balance account. These items would still be taken into revenues when collected and there would be no conflict with the budget. This basis contributes to better control over the assets of the county; a balance sheet prepared on such a basis would also present a more realistic financial picture. Furthermore, I would recommend that your financial statements be prepared from your general ledger. By this I mean that if accounts receivable, for example, are to be included in the financial statements they should be recorded in the general ledger; work sheets adjusting ledger figures to financial statement figures are undesirable.

#### SUBSIDIARY RECORDS

There are other things that contribute to good records management. For example, a good set of cost records is invaluable in connection with the operation of your road and bridge precincts. If the operations of your road and bridge precincts are substantial, a system of work orders would be desirable. All work could then be done on the basis of approved work orders. Costs would also be accounted for

on the basis of these work orders. This would establish controls over the use of equipment and the cost of jobs, and where work is done for municipalities or others, the amounts to be charged for services rendered.

## RETENTION OF RECORDS

So far we have concentrated on the efficient and orderly production of records and I think that when this is accomplished, an efficient and orderly filing and retention of records will follow almost automatically. Many companies and some counties, I understand, are now microfilming records under records-retention programs and destroying the original documents. This procedure usually results in tremendous savings in storage space. From this point onward, the retention and disposition of records becomes a legal matter since there are laws on the books dealing with the question. I am sure that Mr. Davis will include this subject in his discussion of the legal aspects of county records following my talk.

## CRITICISMS OF COUNTY GOVERNMENTS

In the past there have been criticisms of county governments, which may or may not have been justified, such as the following: (1) The county government is disorganized and is not run in a businesslike manner; (2) there is no head of the county government and no administrative leadership; (3) the budget system is inadequate and is based on past expenditures rather than current and future needs; (4) financial reporting is inadequate; (5) there is no cost accounting or cost control owing to poor records; (6) there is no central purchasing; and (7) many operating procedures are antiquated and inefficient.

Consider these criticisms from the standpoint of application to your county. They are so strongly worded that I trust very few, if any, of them could be justly applied to your county. However, I dare say there are one or more areas covered by these criticisms that would be subject to improvement in your county. Also, consider these criticisms from the standpoint of county-records management. When I think of *disorganization* and *unbusinesslike*, I think of poor records and poor management. Certainly the criticisms relating to inadequate budget systems, financial reporting, and cost accounting

are primarily criticisms of records and records management and to a certain extent the criticisms relating to purchasing and operating procedures can likewise be related to records and records management. Therefore it seems to me that the county auditor should be in a position to accomplish more improvements than anyone else in these areas since, as we determined earlier, the county auditor has oversight of all the books and records of county officers and is responsible for strict enforcement of the law governing county finances.

#### RESPONSIBILITY OF COUNTY AUDITOR

The county auditor should be in a position to effect some improvements in the area of county organization and leadership. Although the commissioners' court is the head of the county government and responsible for the administrative leadership, good records and records management by the county auditor are invaluable in aiding the court in discharging its responsibility. Certainly the county auditor cannot escape responsibility for the success or failure of efforts in the areas of budgeting, financial reporting, and cost accounting and cost controls. In some counties the county auditor also functions as the purchasing agent, so in such instances he is directly responsible for purchasing. Further, it is the county auditor's responsibility to update and reorganize antiquated and inefficient operating procedures within the bounds of legal dictates and if legal dictates are unnecessarily restrictive, then you as a group may want to consider ways of eliminating the legal restrictions.

#### CONCLUSION

These remarks will challenge you, I hope, to consider the possibilities for improving your counties' operations through better county-records management; the word *better* I use advisedly since everything we do is subject to improvement, is it not?